

Message Text

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TAGS: ECON, CI

SUBJECT: GOC ANNOUNCES MEASURES TO DEAL WITH VARIOUS ECONOMIC PROBLEMS

1. SUMMARY: GOC ANNOUNCED SERIES OF ECONOMIC MEASURES WHICH WILL CUSHION IMPACT OF INFLATION ON LOWEST PAID WORKERS AND PENSIONERS; INCREASE PRICES OF FUELS, FLOUR, AND PUBLIC TRANSPORTATION; ADJUST EXCHANGE RATE TO CONSTRAIN IMPORTS AND PROMOTE EXPORTS; APPLY PRICE CONTROLS ON SEVERAL "MONOPOLIZED" PRODUCTS AND LIFT CONTROLS ON OTHERS; IMPOSE MANDATORY SYSTEM OF FACTORY OUTLETS FOR CERTAIN GOODS AND CHANGE CAPITAL MARKET TO ENCOURAGE SAVINGS. GOC PROMISED LEGISLATION ON RENTS; REFORESTATION AND RETAIL BUSINESS HOURS. IT ALSO PROMISED TO CRACK DOWN ON FOREIGN EXCHANGE BLACK MARKET, MONOPOLISTS AND TAX EVADERS. BASIC THRUST OF GOC ECONOMIC POLICES REMAINS UNCHANGED. END SUMMARY.

2. IN MARCH 19 TELEVISION ADDRESS, MINISTER OF ECONOMY FERNANDO LENIZ ANNOUNCED SEVERAL MODIFICATIONS IN GOC ECONOMIC POLICY. OBJECTIVES ARE TO ADJUST DOMESTIC DEMAND TO ACCORD WITH CHILE'S FINANCIAL CIRCUMSTANCES,
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PROVIDE SOME ADDITIONAL INCOME TO POOREST CHLEANS,

REASSERT CONTROLS ON PRICES OF GOODS ALLEGEDLY PRODUCED BY MONOPOLIES, AND EXERCISE SOME DOWNWARD PRESSURE ON INFLATION.

3. IN AREA OF WAGE AND INCOME ADJUSTMENTS LENIZ ANNOUNCED PUBLIC SECTOR WORKERS EARNING LESS THAN E159,800 AND PRIVATE SECTOR WORKERS EARNING LESS THAN E150,000 WILL BE ENTITLED TO E20,000 A MONTH BONUS BEGINNING MARCH 1. THIS IS IN ADDITION TO THE 33.1 PERCENT ADJUSTMENT -- THE AMOUNT OF PRICE INFLATION DURING DEC - FEB QUARTER -- WHICH ALL SALARIED PUBLIC AND PRIVATE SECTOR EMPLOYEES WILL RECEIVE BEGINNING MARCH PENSIONS AT MINIMUM LEVEL WILL BE RAISED ADDITIONAL 20 PERCENT AS OF MARCH.

4. EFFECTIVE MARCH 20 PRICES OF SEVERAL CONTROLLED GOODS WERE RAISED; 93 OCTANE GASOLINE TO E1,000 A LITER (64 PERCENT INCREASE IN ESCUDO TERMS); 80 OCTANE GASOLINE TO E700 (67 PERCENT); KEROSENE AT TH PUMP TO E300 (50 PERCENT); CITY BUS FARES TO E230 (53 PERCENT); AND WHEAT FLOUR BY UN UNSPECIFIED AMOUNT. LENIZ SAID BREAD, CHILE'S STAPLE FOOD, WOULD REMAIN AT PRESENT PRICE FOR TIME BEING.

5. IN OBVIOUS RESPONSE TO MOUNTING PUBLIC CRITICISM AGAINST "MONOPOLISTS" AND EXCESSIVE MARKUPS, LENIZ ANNOUNCED REINSTITUTION OF PRICE CONTROLS ON IMPORTED TEXTBOOKS, SCHOOL UNIFORMS, PASTAS, DETERGENTS, BEER AND PAINTS. MARKET REGULATION IS ALSO BEING EXTENDED TO MERCHANDISING OF TEXTILE PRODUCTS, CLOTHING AND SHOES. WITHIN THIRTY DAYS MANUFACTURERS OF FOREGOING ITEMS MUST BEGIN DIRECT SALES TO PUBLIC AT PRICES NOT MORE THAN 10 PERCENT ABOVE WHOLESALE PRICE.

6. IN MOVE TO CONSTRAIN IMPORTS AND STIMULATE EXPORTS SPECIAL ONE-TIME DEVALUATION OF BROKERS RATE BY 8.8 PERCENT AND BANKERS RATE BY 18.2 PERCENT WAS ANNOUNCED. LENIZ SAID THAT AFTER THIS ADJUSTMENT VALUE OF DOLLAR WOULD CONTINUE TO BE SET IN ACCORDANCE WITH VARIATIONS IN INTERNAL CHILEAN PRICES. LENIZ ADDED THAT NEW EXPORT INCENTIVES WOULD BE INTRODUCED WHICH WILL COMPLIMENT LIMITED OFFICIAL USE

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TAX DRAWBACK SYSTEM RECENTLY IMPLEMENTED WITH VALUE ADDED TAX. GOLD PRODUCTION IS TO BE ENCOURAGED BY NEW CENTRAL BANK INCENTIVES -- PRESUMABLY MEANING CENTRAL BANK WILL RAISE PRICE IT PAYS TO MINERS ABOVE OFFICIAL DOLLAR PRICE OF GOLD.

7. GOC WILL ALSO MOVE TO PROMOTE FURTHER DEVELOPMENT OF CAPITAL MARKET AS MEANS OF STIMULATING PRIVATE

SAVINGS AND REDUCING CENTRAL BANK FINANCING OF PUBLIC SECTOR DEFICIT. LENIZ SAID THAT NEW INCENTIVES WILL BE MADE AVAILABLE TO ENCOURAGE LONG-TERM DEPOSITS AND THAT THE SAVINGS AND LOAN ASSOCIATION WILL NOW BE PERMITTED TO TRANSACT IN SHORT-TERM FINANCIAL INSTRUMENTS. ONE OBJECTIVE OF THESE MEASURES IS TO ENABLE GOC TO FINANCE LARGER PART OF TIS BUDGET DEFICIT THROUGH MARKET; ANOTHER, TO ENABLE MORE FLEXIBLE EXERCISE OF MONETARY POLICY.

8. LENIZ ANNOUNCED THAT LONG-AWAITED RENT LAW, FREE TRADE LAW ALLOWING RETAIL OUTLETS TO DETERMINE WHAT HOURS THEY WILL REMAIN OPEN, AND REFORESTRATION LAW WILL SOON BE PROMULGATED. HE INDICATED THAT GOC WAS SEARCHING FOR OTHER MEANS TO AID THE NEEDIEST DURING THIS ECONOMICALLY DEPRESSED PERIOD AND TO ECONOMIZE ON GOVERNMENTAL AND OTHER PUBLIC SECTOR EXPENDITURES. IN THIS VEIN, LENIZ SAID THAT CHANGES OF MANAGEMENT IN SAVINGS AND LOAN ASSN, GOVERNMENT STEEL COMPANY (CAP), GOVERNMENT PETROLEUM MONOPOLY (ENAP) BANCO DEL ESTADO, GOVERNMENT ELECTRICITY COMPANY (ENDESA) AND OTHERS WILL BE MADE SOON.

9. IN REFERENCE TO RECENT WAVE OF ARRESTS AND BUSINESS CLOSURES RELATED TO INFRACTIONS OF TAX AND FOREIGN EXCHANGE REGULATIONS, LENIZ WARNED THAT GOC WOULD MOVE HARSHLY AGAINST FOREIGN EXCHANGE BLACKMARDETEERS, TAX EVADERS AND MONOCOLISTS.

10. COMMENT: AT BEGINNING AND END OF SPEECH LENIZ EMPHASIZED THAT BASIC ECONOMIC POLICIES WERE NOT BEING CHANGED. AS FAR AS EMBASSY CAN SEE, THIS IS TRUE. IMPOSITION OF FEW NEW PRICE CONTROLS AND OTHER GOVERNMENT REGULATIONS OF MARKET IS MODEST TACTICAL RETREAT BY GOC IN FACE OF MOUNTING PUBLIC AND MILITARY CRITICISM OF PRICE-GOUGING LIMITED OFFICIAL USE

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AND MONOPOLY PROFITS. BACKTRACKING IN THESE AREAS WAS AT LEAST PARTIALLY OFFSET BY LARGER SCOPE BEING GIVEN FINANCIAL INSTITUTIONS TO DETERMINE THEIR PORTFOLIOS.

11. DECISION TO CHANNEL ADDITIONAL RESOURCES TO LOWEST PAID WORKERS AND PENSIONERS WAS TAKEN IN RECOGNITION OF FACT THAT CPI HAS BEEN AN INADEQUATE MEASURE OF PRICE INCREASES AFFECTING LOW INCOME RECIPIENTS. OUR ESTIMATE IS THAT IMPACT ON GOVERNMENT WAGE BILL AND RATE OF INFLATION WILL BE RELATIVELY MODEST. EFFECTS ON PRIVATE EMPLOYERS MAY BE SOMEWHAT GREATER SINCE THEY HAVE MOST OF LOWER PAID WORKERS ON THEIR ROLLS.

12. WE ASSUME DECISION TO DEVALUE AT THIS TIME WAS TAKEN PARTLY IN RESPONSE TO IMF PRESSURE AS WELL AS TO CRITICAL NEED TO CUT BACK ON IMPORTS AND STIMULATE EXPORTS. FOR PAST SEVERAL MONTHS

ESCUDO HAS BEEN DEVALUED AT SOMEWHAT FASTER RATE THAN
INCREASE IN LOCAL CPI.

13. SINCE PUBLIC SECTOR, ESPECIALLY PUBLIC SERVICE AND BUSINESS
ENTERPRISES, HAS BEEN PRINCIPAL ENGINE OF INFLATION, IMPLEMENTATION
OF TIGHTER CONTROLS ON GOVERNMENTAL SECTOR AS PROMISED BY LENIZ
WOULD OFFSET INFLATIONARY IMPACT OF RAISING REAL MINIMUM WAGES, AT
LEAST IN MEDIUM TERM. SHORT-TERM IMPACT OF THE FOREGOING MEASURES
WILL PROBABLY BE MODESTLY INFLATIONARY. REIMPOSITION OF PRICE
CONTROLS ON SEVERAL GOODS SHOULD HAVE TEMPORARY EFFECT OF SLOWING
DOWN CPI RISE BUT THIS WILL PROBABLY BE MORE THAN COUNTERBALANCED
BY EXPANSION IN DEMAND FROM LIFTING REAL INCOMES OF THOSE AT
BOTTOM OF WAGE SCALE.

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